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Build, Borrow or Buy

When is M&A the right answer to your growth challenges?



Outline

Research on M&A

What do we know so far?

The M&A puzzle

Why do good acquirers fail?

Build, Borrow, or Buy

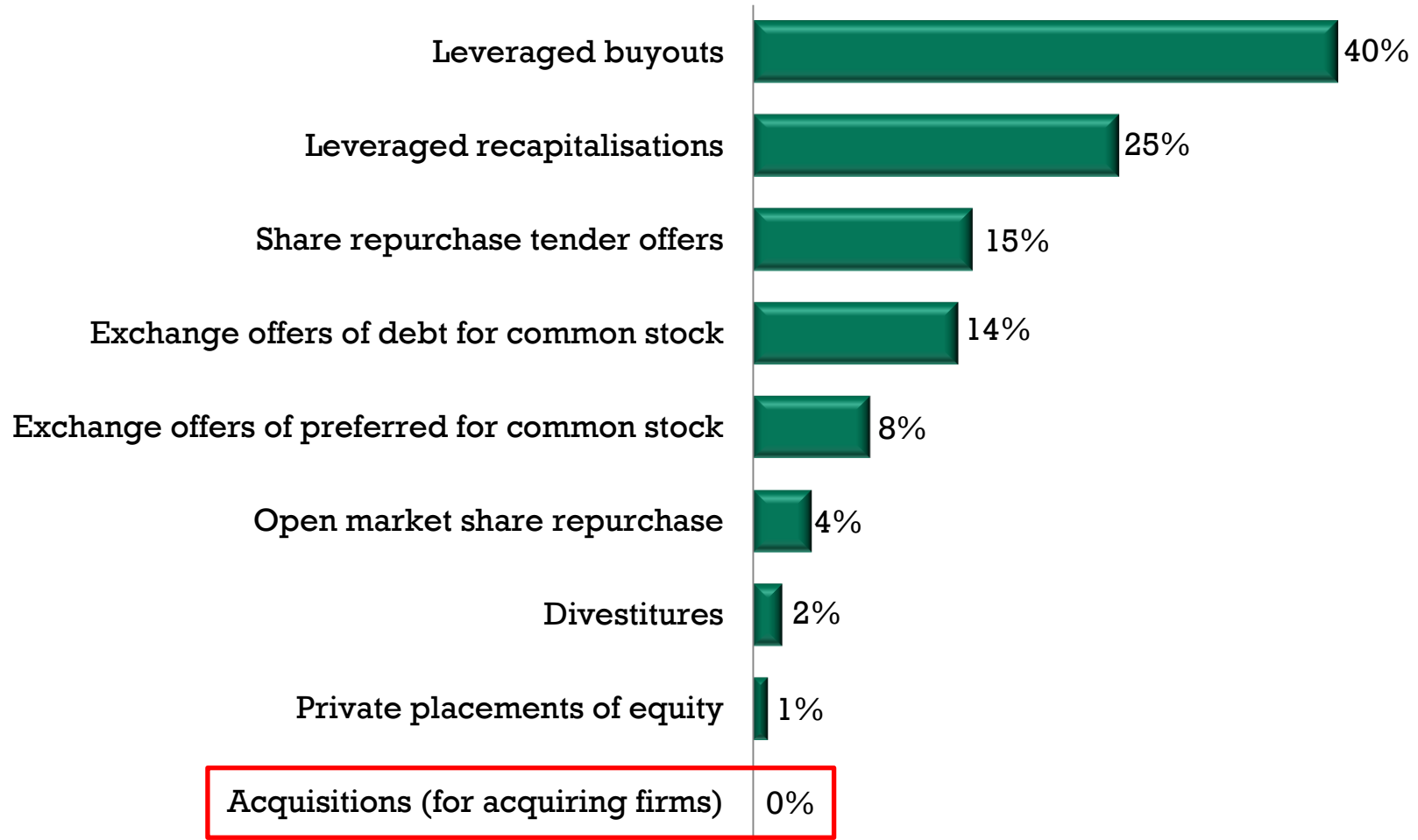
Does it matter for survival?

Build, Borrow, or Buy in Practice

Where to start?

The shareholder value hit parade

Average share price response



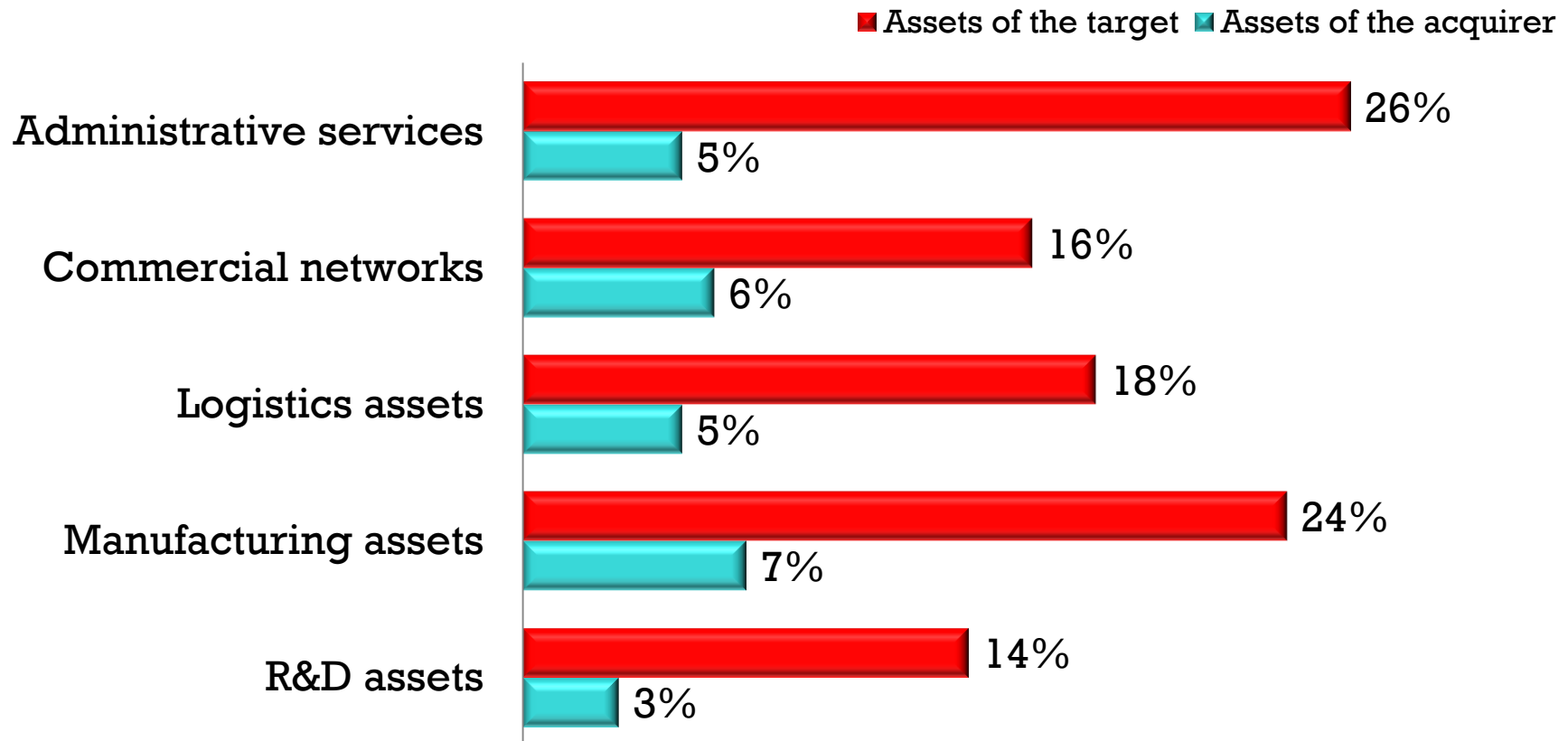
Acquirers' poor returns persist over time

	Event window	Acquirer returns (across studies)	# studies	Sample size
Stock market returns	>180 days-3 years	-10%	103	25,205
Stock market returns	>3 years	-7%	26	5,966
Return on Assets	1-3 years	-2%	29	31,010
Return on Equity	1-3 years	-2%	14	1,790
Return on Sales	1-3 years	-3%	9	14,660

Source: King, Dalton, Daily & Covin (Strategic Management Journal, 2003)

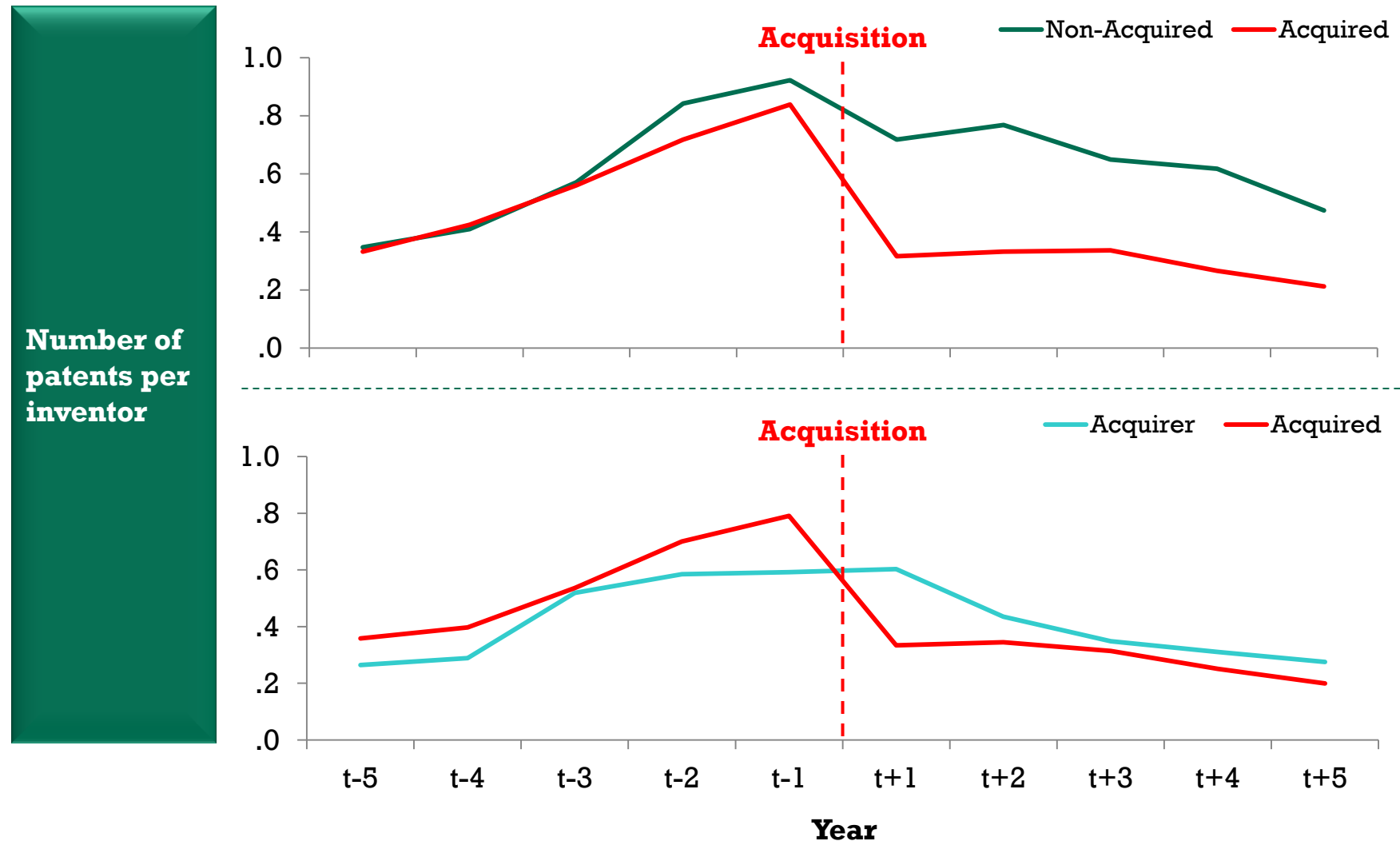
M&A damages capabilities – Notably at target

Whose assets are divested?

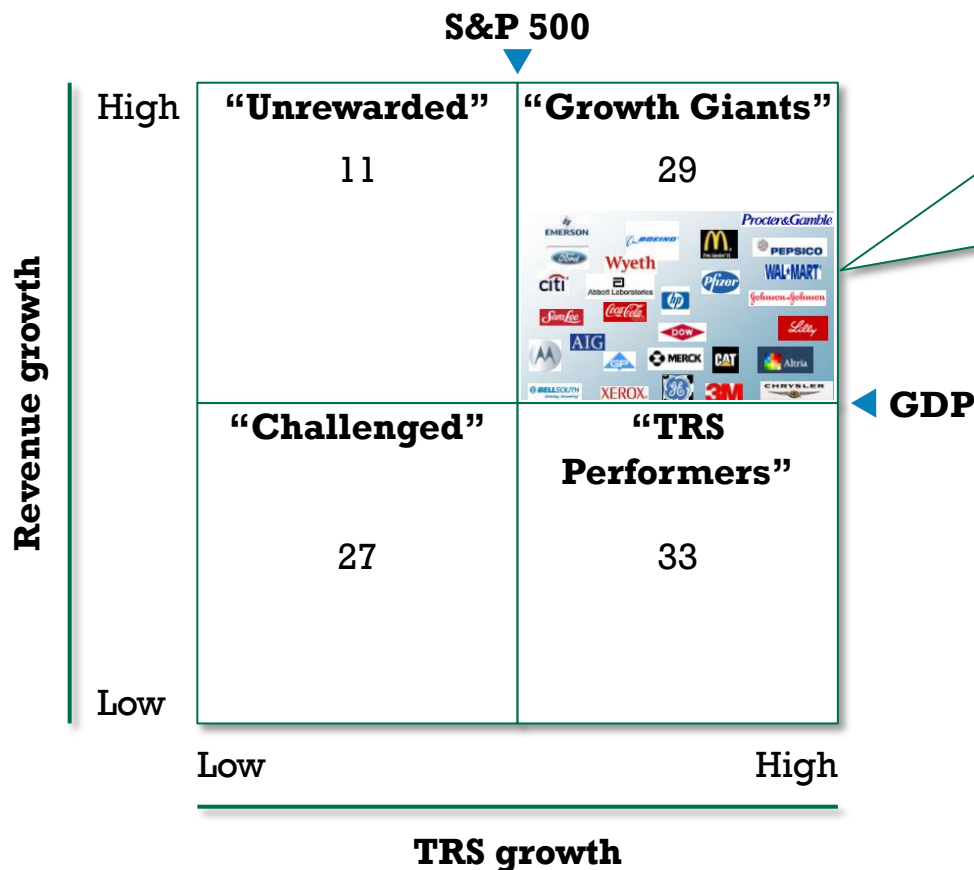


% of firms responding that at least 30% of assets were divested post-acquisition
Sample size: 253 M&As; manufacturing industries; US & Europe

M&A hurts employees' motivation – Notably at target



Yet... M&A is a powerful tool for growth



Growth achieved through:

- **Portfolio momentum**
Growth of the segments in its portfolio. **65%**
- **M&A**
Net revenue growth from M&As and divestments **30%**
- **Share gain**
Gaining or losing share from competitors **5%**

**Death rates
6x higher in low
growth companies**

First decade performance distribution;
1984-1994, 100 Largest US Companies

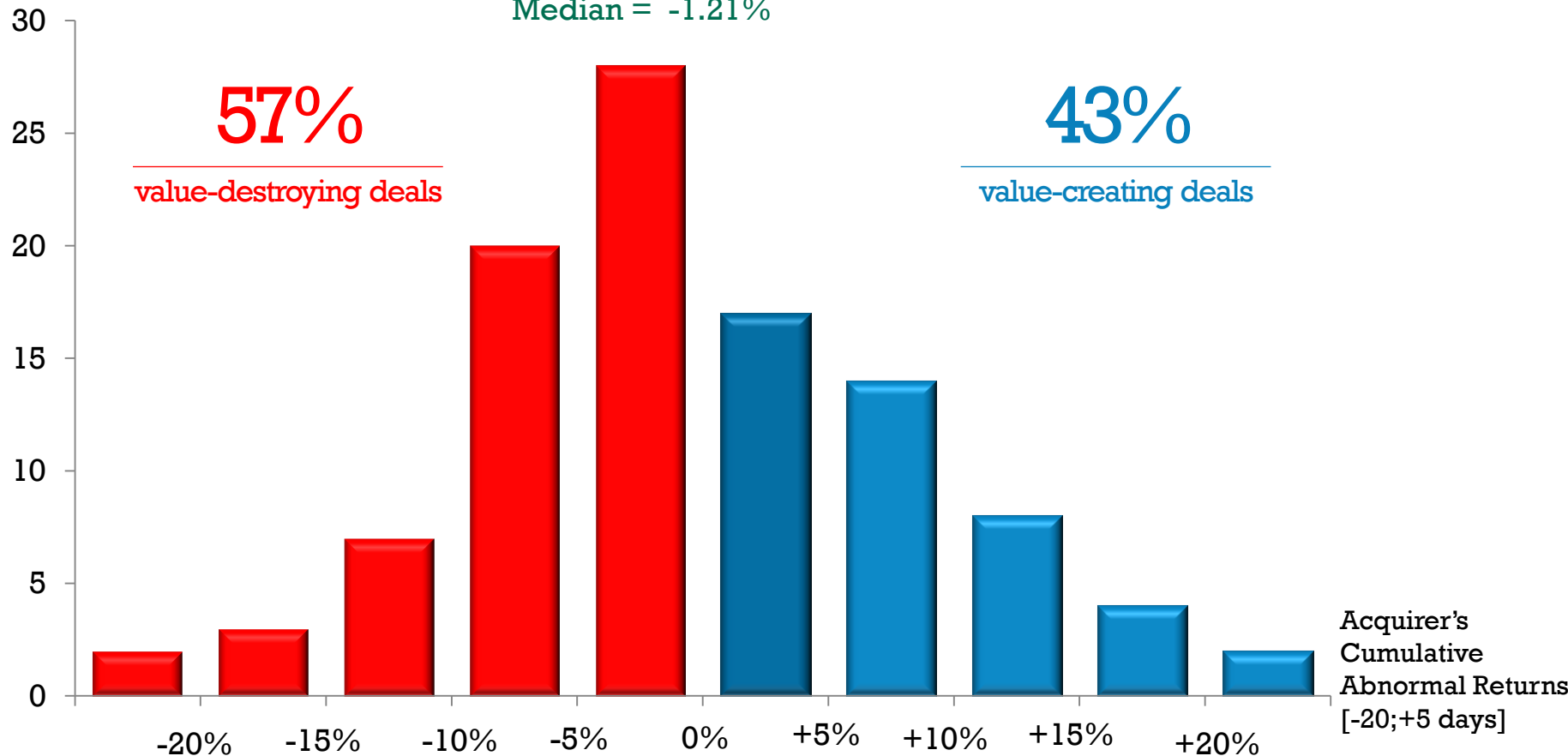
Looking beyond averages...

deals

Mean = -0.37%
Median = -1.21%

57%
value-destroying deals

43%
value-creating deals



The capability premium in M&A



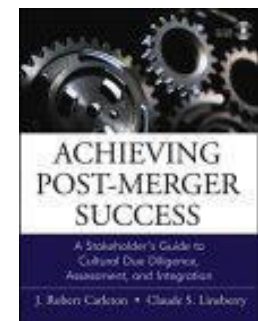
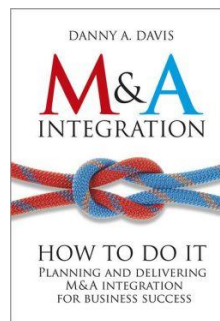
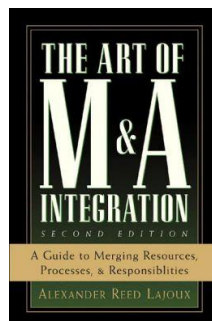
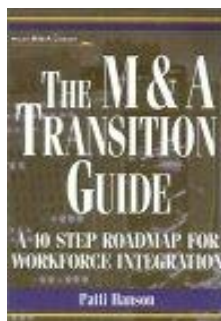
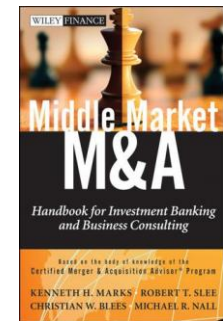
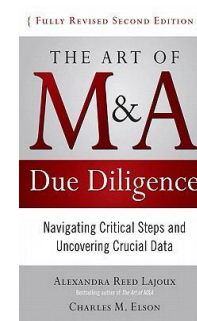
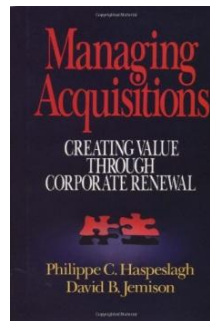
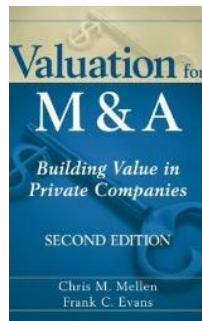
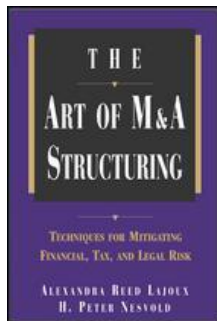
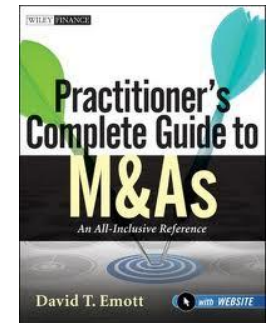
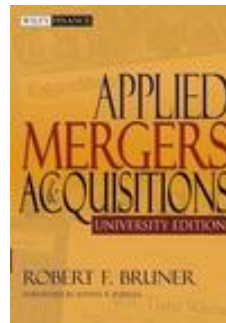
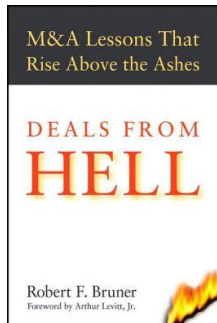
Short-term performance

- Resource fit
 - Exploitation
 - Enhancement
 - Acquisition

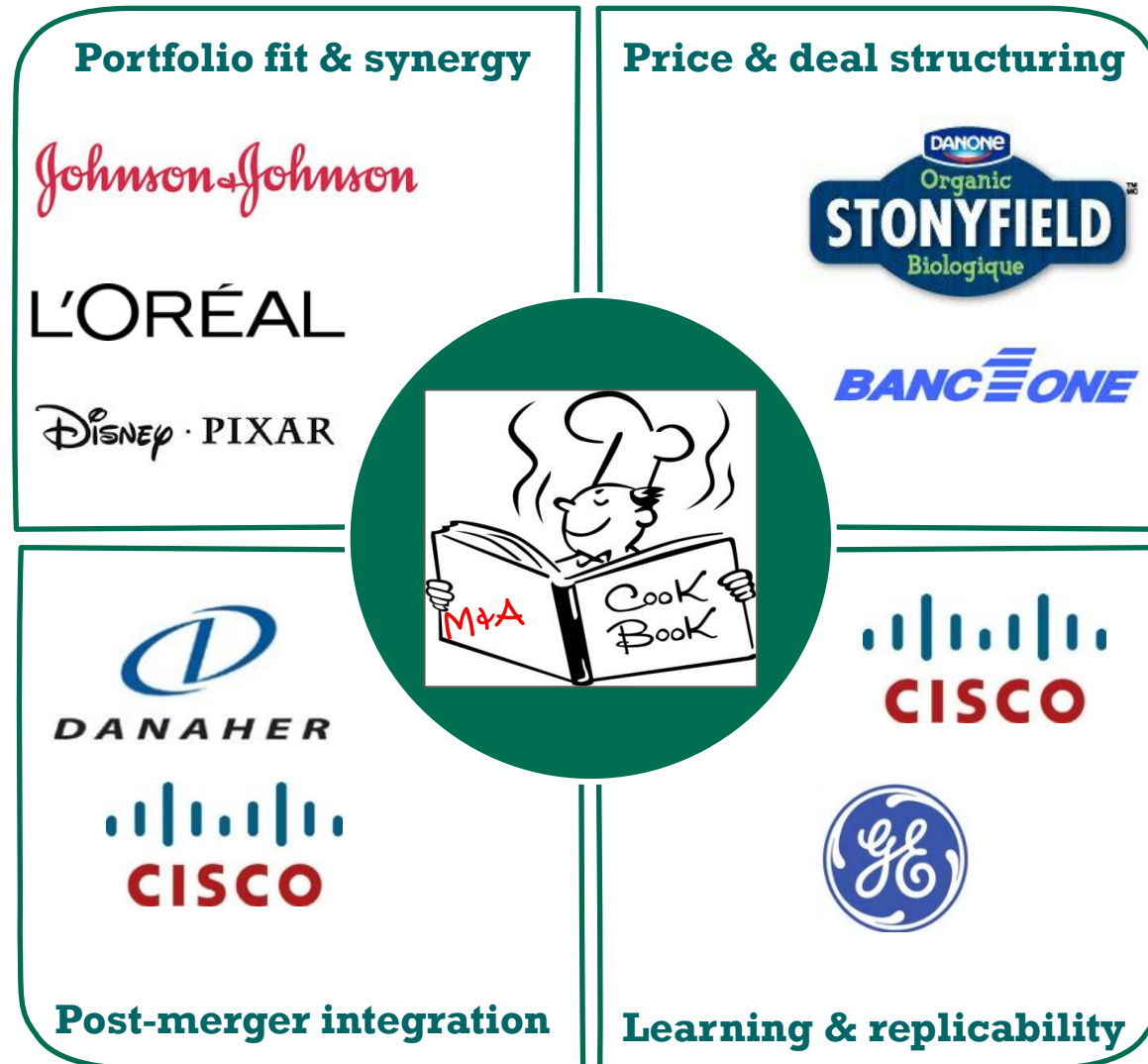
Long-term performance

- Resource reployment
 - Tradeoff between preservation & integration
 - Resource divestiture
 - Complementary resource investments (CAPEX; R&D..)

We have plenty of textbooks on M&A execution



We have “best practices” on M&A execution



The M&A puzzle: Why do good acquirers stumble or fail?

BANC ONE

tyco

The
Cooper
Companies



CISCO

MONSANTO



Multiple mistakes in M&A but... the first is

**M&A becomes
“the strategy” –
Instead of being
a tool for strategy
execution**



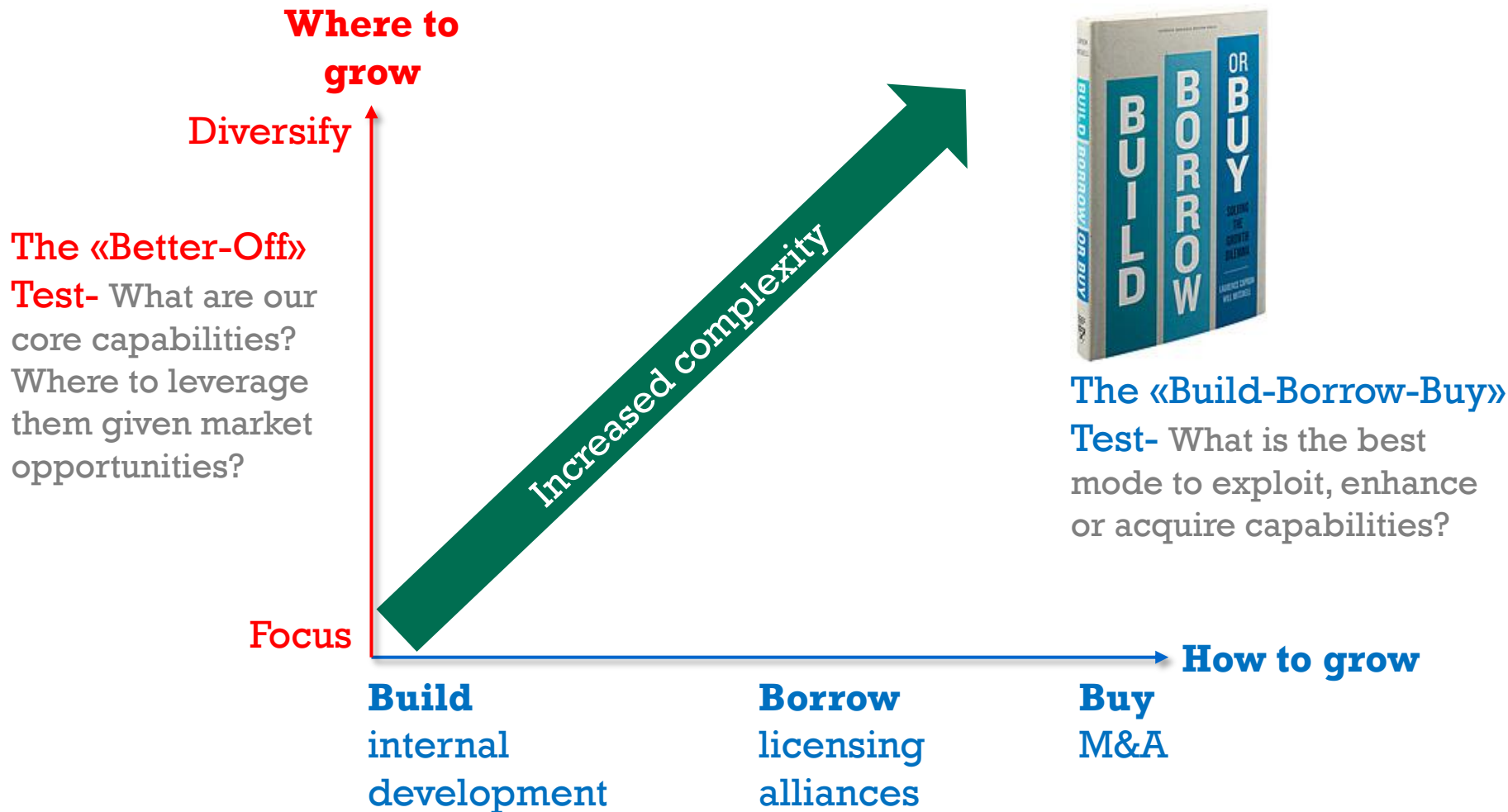
Real issue: Failing to consider alternative growth options

- *“The most serious mistakes are not being made as a result of wrong answers. The true dangerous thing is **asking the wrong question**”*
(Peter Drucker)
- ... or, sometimes, not asking a question at all!

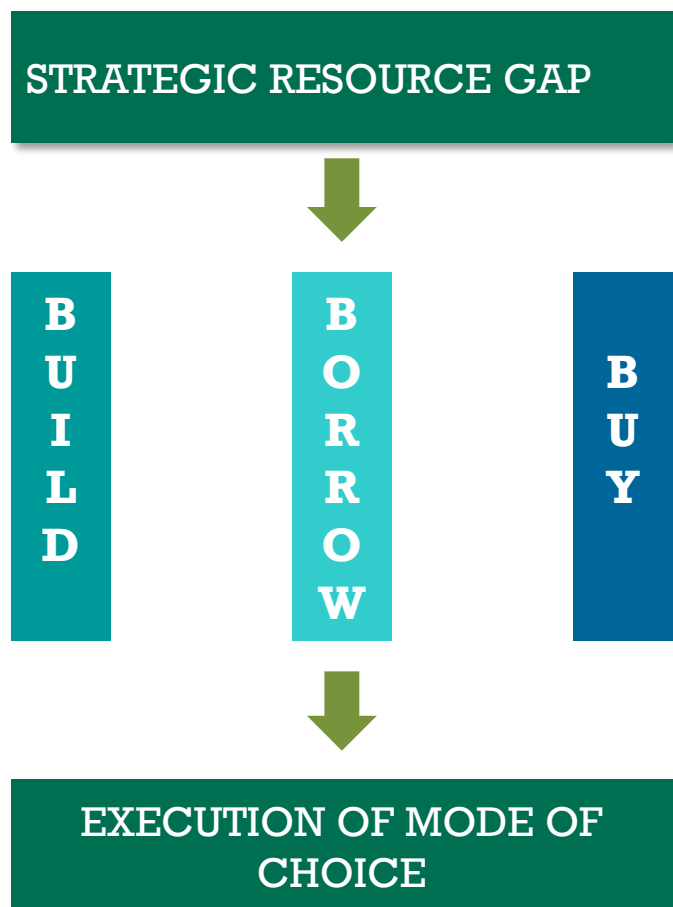


➤ Ask the right question: **When is M&A the right path to grow?**

When is M&A the right path to grow?



Selecting a viable growth path: *The missing piece*

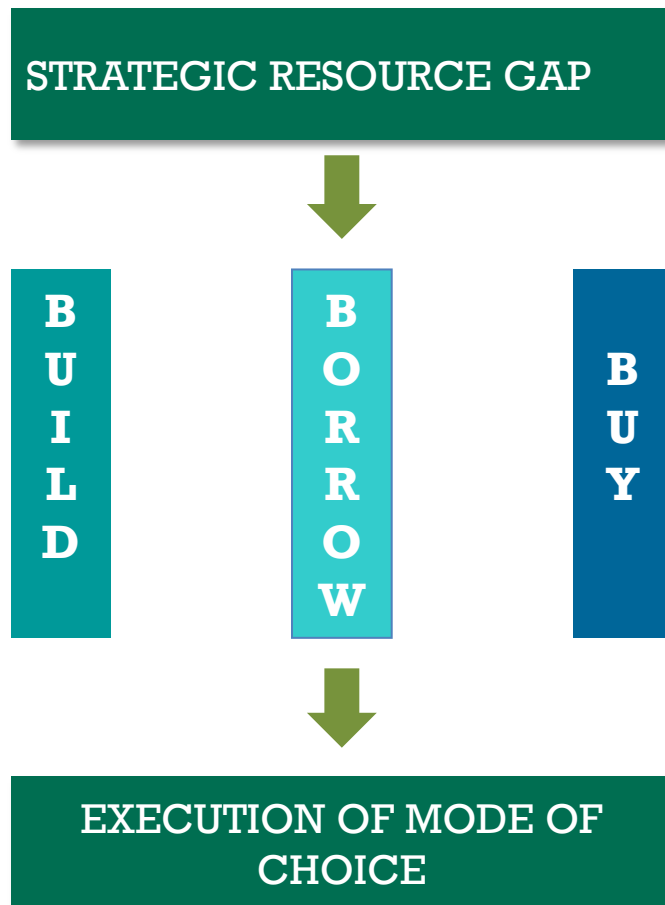


Schering-Plough:
1851-2009
From internal
innovation to loss of
independence

**“One-trick pony” &
“opportunistic” firms
eventually fail**

Marconi -ex GE-
1897-2006
From opportunistic
deals in telco to
financial distress

Selecting a viable growth path: Core thesis



Core thesis

COMPANY SURVIVAL IS
BASED ON ABILITY TO
SELECT & BALANCE
MODES OF GROWTH

Build, Borrow, Buy: Does it matter for survival?

Surviving the digital revolution in global telecom (162 firms)

- 40% of firms relied on one mode to grow (one trick-ponies).
- 33% used **all three modes** of growth.
- 27% used two out of three modes.

80%
of firms

Prefer M&As to alliances because they want exclusive access to the target's capabilities

Survival data

- Firms using 3 modes of growth were more likely to survive
 - 46% vs. using only alliance
 - 26% vs. using only M&A's
 - 12% vs. using only internal

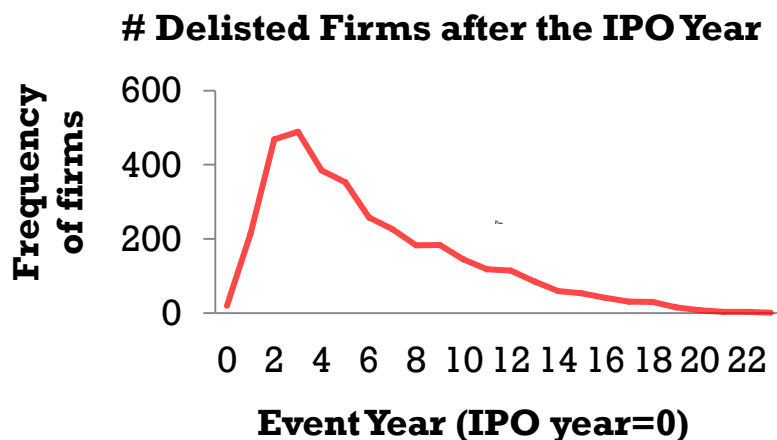
27%
of firms

Succeed in extracting the value from target's capabilities

BBB: Does it matter for survival of IPOed firms?

Surviving the IPO process

- 3,595 U.S. IPOed firms (1988-2000)
- 4,395 acquisitions (1988-2012)



55%

of IPOed firms

Delisted by end of Year 5

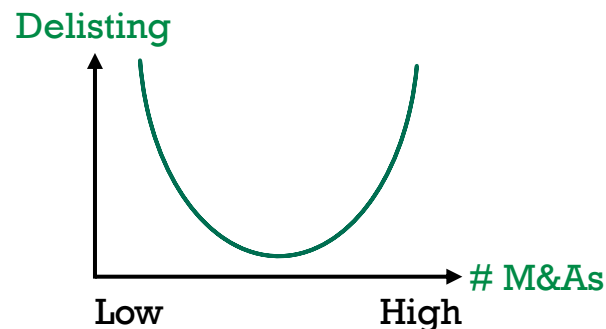
80%

of IPOed firms

Delisted by end of 2012

IPO & M&A activity

- 75% of IPOed firms had its first deal within the first 3 years
- Peak year of first acquisition deal : Year 1 following the IPO
- 21% of IPOed firms with no deals



- Too many M&As, too fast:** Integration problems.
- No M&A:** Growth problem.

Build, Borrow, Buy in practice

**Building BBB
self-awareness**

BBB Self-Assessment Test

**Learning to
select the right
mode of growth**

Resource Pathway Framework

**Developing a
BBB discipline
within your
organization**

Management of BBB portfolio and learning

Building BBB self-awareness

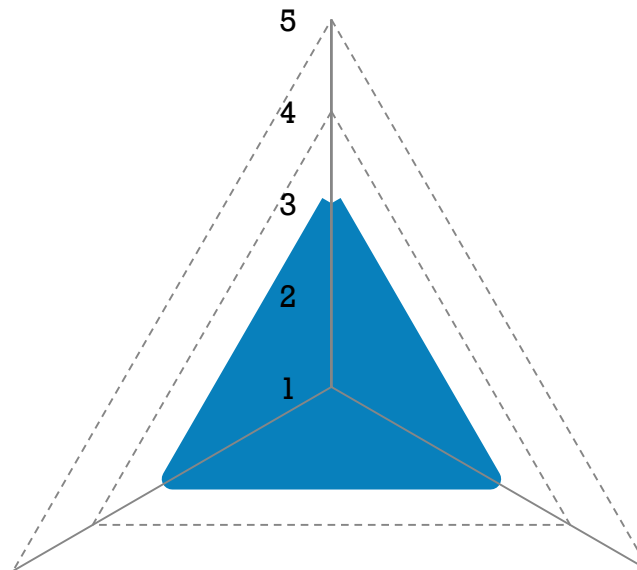
BBB Self-Assessment

- Which growth mode do you use most?
- Who dominates the decision-making process?
- What is your corporate mantra?

B
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I
L
D



B
O
R
R
O
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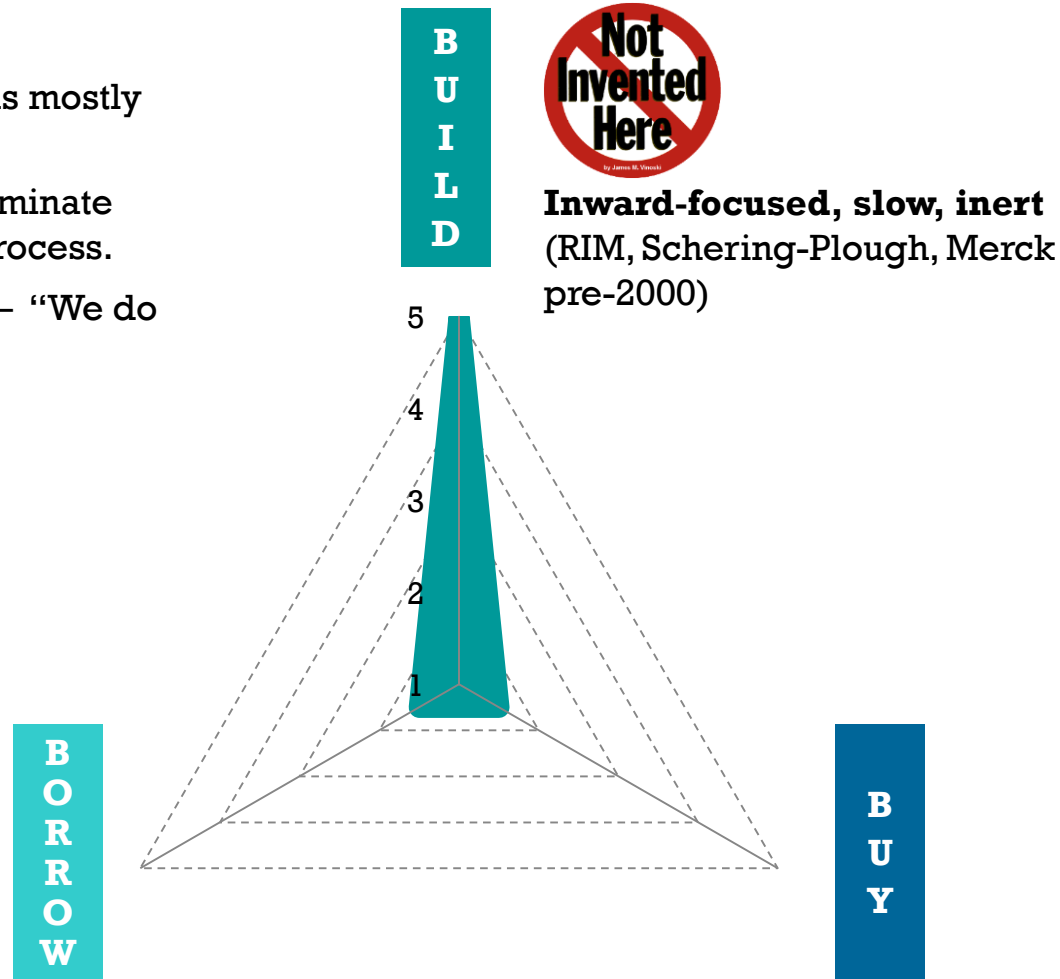
B
U
Y



Build – “We do it ourselves”

BBB Self-Assessment

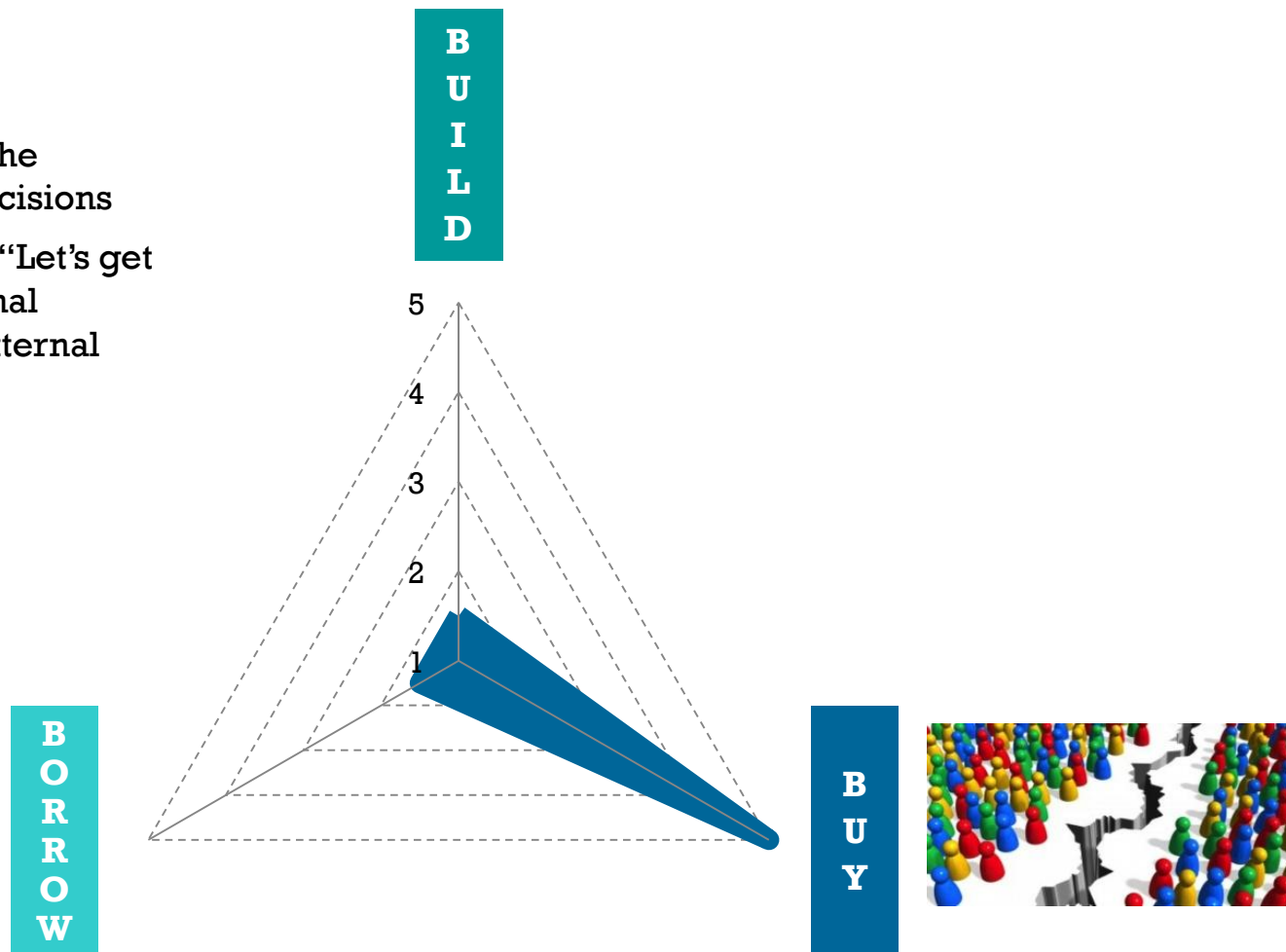
- Internal development is mostly used.
- Internal R&D teams dominate the decision making process.
- Our corporate mantra – “We do it best”



Buy – “We buy our way in”

BBB Self-Assessment

- M&A is mostly used.
- M&A team dominates the capability-sourcing decisions
- Our corporate mantra: “Let’s get rid of expensive internal deadwood; let’s buy external resources”



Fragmented, chaotic, bloated
(Tyco, Cooper, Lyondell Chemical)

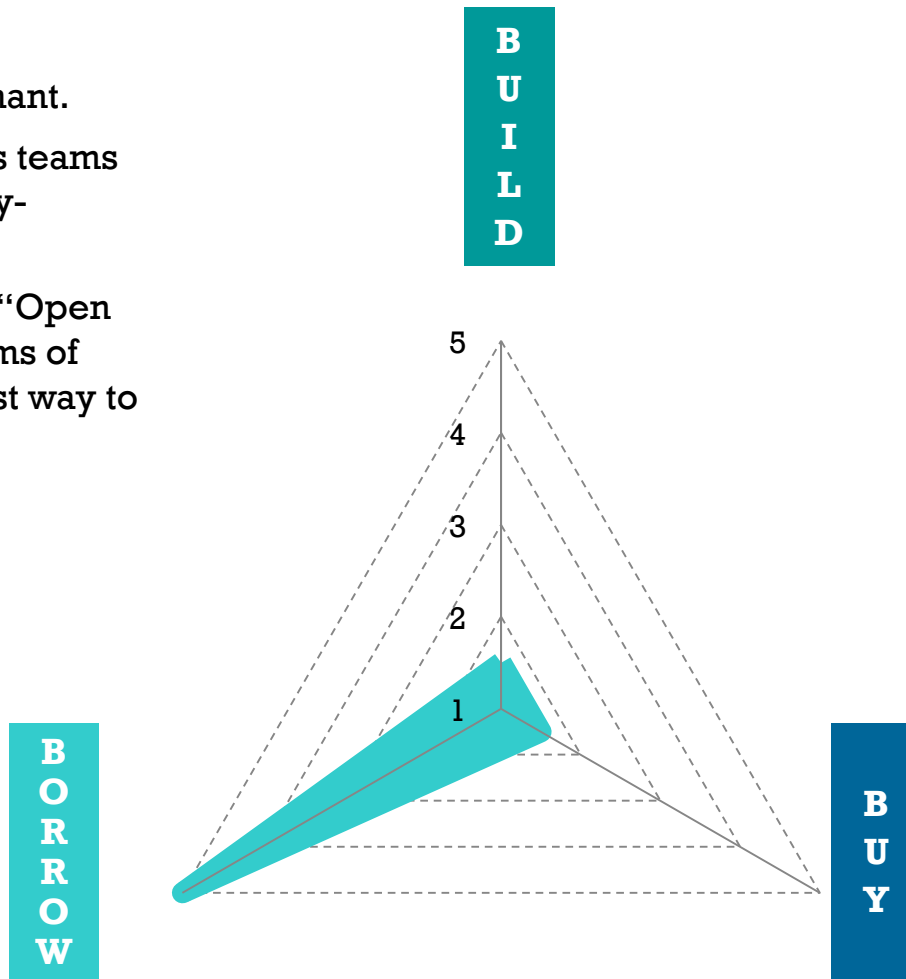
Borrow – “We need partners to help us”

BBB Self-Assessment

- Partnerships are dominant.
- Licensing and alliances teams dominate the capability-sourcing decisions
- Our corporate mantra: “Open innovation in ecosystems of collaborators is the best way to move forward”



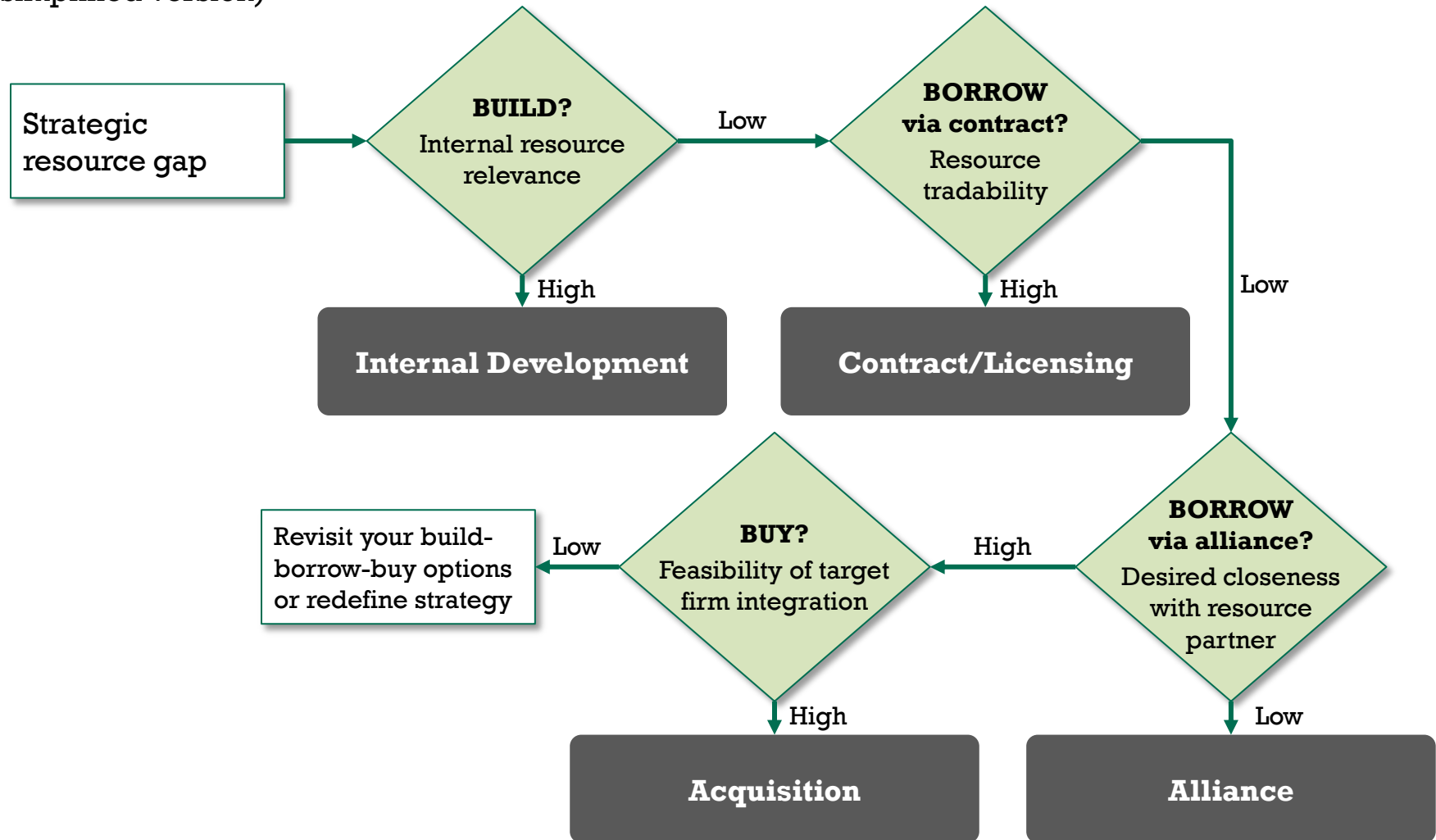
Partner-dependent
(Rover, Hero, Dacia)



Learning to select the right mode of growth

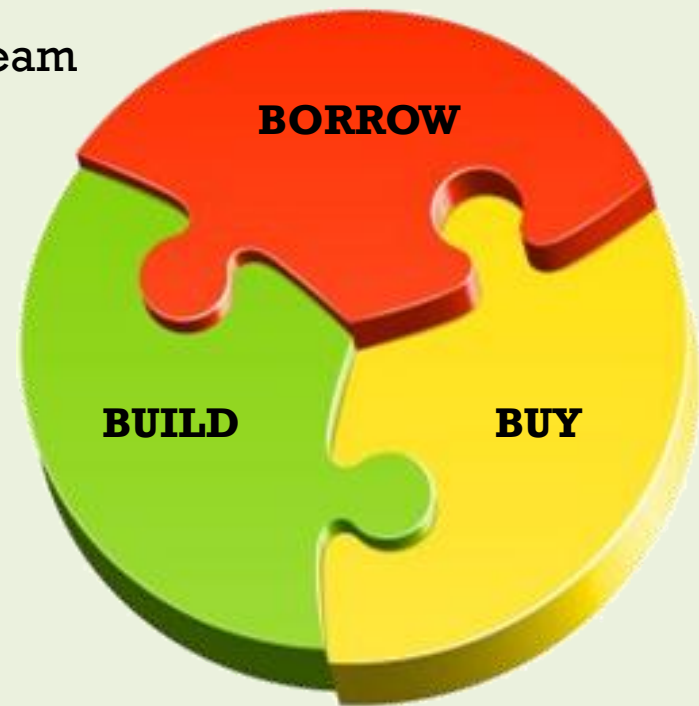
Resource Pathway Framework

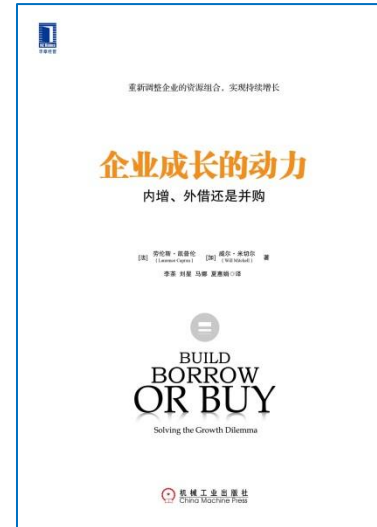
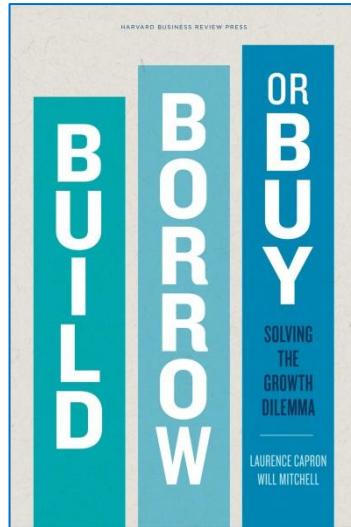
(simplified version)



Developing a BBB discipline within your organization

- It starts with the CEO and top management team
- Optimal BBB portfolio
 - Coordination of BBB teams
 - Pipeline of BBB opportunities
 - Selection tools, processes
 - Gain experience across BBB modes
 - Blending resources from different sources





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